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HIGHER EDUCATION: ANSWERS TO FREQUENTLY ASKED QUESTIONS

How Does the State Fund Enrollment Growth at UC and CSU?

☑ Enrollment Growth Funding Based on "Marginal Cost"

- Typically, the annual budget act funds enrollment growth at the University of California (UC) and the California State University (CSU). The specific amount of funding provided each year depends on the number of additional full-time equivalent (FTE) students and the per-student funding rate.
- The funding rate is based on the marginal cost each additional student creates for increased instruction and support services. The marginal cost is less than the average cost because certain fixed costs (such as for central administration) may change very little as new students are added to an existing campus.

☑ Current Marginal Cost Methodology Developed in 1995

- In the *Supplemental Report of the 1994 Budget Act*, the Legislature called for representatives from UC, CSU, the Department of Finance, and our office to develop a new methodology for estimating the amount of funding needed to support each additional FTE student at UC and CSU.
- After a series of negotiations in 1995, a new methodology was developed. This methodology was first implemented in 1996-97 and has generally been used to calculate enrollment funding ever since.

☑ Major Features of the 1995 Marginal Cost Methodology

- ***Includes a Single Marginal Cost Formula for Each Segment.*** Each university segment uses one formula to calculate a single marginal cost that reflects the costs of the system's academic programs for all education levels (such as undergraduate and graduate levels). Thus, the state provides a different per-student funding rate depending only on which university system that student attends.

- ***Accounts for Eight Program Areas.*** The formula takes into account the costs for eight program areas—faculty salary, faculty benefits, teaching assistants, academic support, instructional support, student services, institutional support, and instructional equipment. These costs are based on current-year funding and enrollment levels, and then adjusted for fixed costs that are not affected by year-to-year changes in enrollment.

- ***Recognizes Both General Fund and Fee Revenue.*** Enrollment growth is supported each year by a combination of state General Fund and student fee revenue, based on the past year's "split" in the university's entire operating budget between the two fund sources. This split is used to calculate the General Fund amount that must be added for the support of new students.

☑ Recent Departure From the 1995 Marginal Cost Methodology

- The UC and CSU have used the 1995 methodology every fall to estimate the amount of funding required for each additional FTE student projected to enroll in the coming year. From 1996-97 through 2003-04, these amounts were used to fund enrollment growth in the annual budget.

- However, the budgets adopted for 2004-05 and proposed for 2005-06 depart from this methodology.

☑ Re-Examination of Marginal Cost Methodology Recommended

- The Legislature's most recent review of the *Master Plan for Higher Education* (in 2002) called for an assessment of the existing marginal cost formula. According to the 2002 Joint Legislative Committee to Develop a Master Plan for Education, "The State should analyze the appropriateness of modifying the current marginal cost approach for funding all additional enrollments in public colleges and universities, to account for contemporary costs of operations, differing missions and functions, and differential student characteristics that affect costs in each sector."

- We discuss this issue and our recommendation in the *Analysis of the 2005-06 Budget Bill* (page E-167).

This is one of a series of issue briefs examining important questions about higher education funding in California. For more information on this topic, or to request other briefs from this series, contact the Legislative Analyst's Office Higher Education section at (916) 319-8339, or visit our website at **www.lao.ca.gov**.